Gopher Oil & Gas Company Ltd.

ANNUAL REPORT

1997

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Management Group

The high level of mergers and takeovers in our area of the industry has enabled Gopher to assemble a team of talented and energetic individuals that ensures the Company has the skills, technologies and knowledge to carry out its growth initiatives. The following is a brief background summary of the officers of the Company.

Gordon A. Cormack, P.Eng. – 26 years industry experience. President and Director of The Rimoil Corporation, a TSE listed oil and gas company, until it was acquired by a large intermediate oil company.

James A. Campbell, P.Geol. – 18 years industry experience. Vice President, Exploration/New Ventures for Conoco Canada Limited prior to joining Gopher.

Randal J. Matkaluk, C.A. – 17 years industry experience. Employed with Cube Energy Corp., a TSE listed junior oil company, as Vice President, Finance and Administration and Chief Financial Officer until it was acquired by a senior oil and gas company.

Robert F. Gray, P.Land. – 22 years industry experience. Vice President, Land at Resman Oil and Gas Ltd., a privately-owned company purchased by a large public oil and gas producer.

Gopher Oil & Gas Company Ltd. is a Calgary based oil and gas company listed on the Alberta Stock Exchange under the symbol "GOF". The Company has a fiscal year end of May 31.

To Our Shareholders

Increasing the value of your investment in Gopher Oil & Gas Company Ltd. is the driving force behind our vision of being an aggressive, growth-oriented oil and gas company. In 1997, we initiated the actions necessary to create superior share appreciation. Gopher is a start-up company resulting from the reorganization of Northern Plains Oil Corporation, an Alberta Stock Exchange listed company with minimal assets. The revitalized Company has existed for less than one year and in that short time has achieved the following:

- *reorganized to allow the resumption of trading on January 22, 1997;*
- *successfully raised $8.6 million through equity issues;*
- *put in place an industry-proven management team;*
- *initiated a high-impact exploration program in west central Alberta;*
- *conducted a large development drilling program in the Lloydminster area;*
- *increased oil production from a nominal level to over 500 barrels per day; and,*
- *drilled a total of 20 wells by the fiscal year end of May 31.*

Our balanced strategy and key to growth in 1998 is the development of low-risk heavy oil reserves and high-impact exploration programs. Our strong balance sheet with working capital in excess of $3 million, no debt and a significant number of drilling opportunities, sets the stage to deliver exceptional financial performance.

I believe that 1998 will be the year we look back on as the time Gopher established a significant production base and initiated its exploration program with vigour in western Canada. With an energetic and capable employee group, our focused asset base and shared sense of urgency, the future looks positive.

I extend an invitation to all shareholders and potential investors to contact us to discuss our results and future plans.

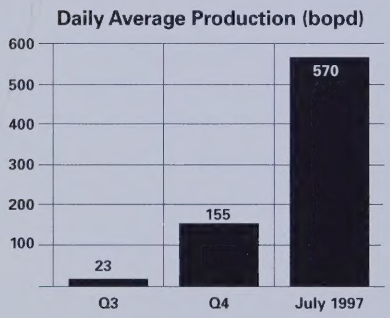
Gordon A. Cormack
President
September 3, 1997

1997 Review

No comparative figures have been included in this section as Northern Plains Oil Corporation, the predecessor of Gopher, was an inactive business and comparisons would not be meaningful.

Drilling Activity

Gopher participated in the drilling of 20 wells during the year ending May 31, 1997. This program resulted in 15 oil wells, one gas well, two wells waiting on winter access for completion and production testing, and two dry and abandoned wells.



Production

Production has increased dramatically with the commencement of operations at the Company's 100 percent owned Silverdale property. Rates for the month of July 1997 averaged 570 barrels per day with current levels in excess of 600 barrels per day.

The majority of the Company's production comes from its recently drilled Silverdale project. Gopher also owns a small working interest in several oil producing properties in southeast Saskatchewan which was part of Northern Plains Oil Corporation.

Business Environment

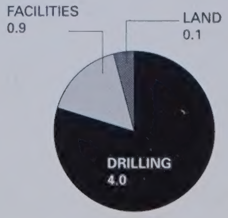
Prices for energy commodities have been, and are expected to remain, highly volatile. The prices we receive for our production depends on a number of factors, including U.S./Canadian dollar exchange rates, transportation and product quality differentials. We recognize the additional financial volatility associated with heavy oil quality differentials and feel that this negative aspect is offset by lower geological risk. Our heavy oil assets are also situated close to existing infrastructure such as roads, pipelines and electrical power. This provides us with year-round access and a resource base that can be developed and produced on a very cost-effective basis.

Financial

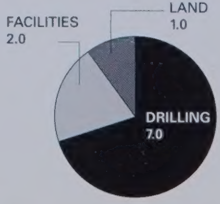
Our financial revitalization commenced on November 21, 1996 whereby, during a four-month period, the successful completion of four equity issues resulted in the Company receiving net cash proceeds in the amount of $8.6 million and working interests in the areas of Silverdale and Kaybob. As at May 31, 1997, we had an unutilized credit facility of $5 million and a positive working capital of $3.5 million.

During 1997, $5 million was invested with 79 percent of the funds directed towards drilling, 17 percent towards equipment and facilities, and 4 percent towards land purchases. We anticipate capital expenditures in 1998 of $10 million primarily directed towards exploration and development drilling. Emphasis will be placed on aggressively acquiring lands in our exploration and core areas with the sole purpose of creating drilling opportunities. Our capital program will be funded by internally generated cash flow, existing working capital and bank debt.

1997 Capital Expenditures ($ Millions)



1998 Budget ($ Millions)



Exploration and Development

In the Lloydminster area, we continue to actively acquire new prospects modelled after our successful 15-well program at Silverdale. Immediate drilling of these opportunities is a key tactic as we pursue our strategic goal to grow our production base through low-risk drilling for heavy oil. Our second 1997 multi-well drilling program is set to commence in October 1997. This program confirms our ability to source opportunity in the area and will test our recent land acquisitions. We expect continued reserve addition and production growth. Our advantages include an aggressive approach, optimized production techniques, and low-cost operations.

Gopher has established a major exploration focus area in west central Alberta during 1997. Prospects currently being pursued have been developed internally and in participation with successful area operators. The west central Alberta area offers oil and gas targets, multi-zone potential, and a mix of proven play types and new play trends to balance portfolio risk. Emphasis will increasingly be placed on new play trend development to maximize follow-up potential from exploratory discoveries. Growing expertise and success in our focus area will support future expansion to the west into deeper areas of the basin characterized by long reserve life, liquids-rich gas and fewer competitors.

Kaybob

Gopher has participated in a farm-in arrangement covering 43.75 sections of land. To date, four wells have been drilled resulting in the Company earning 50 percent before payout on 16 sections with rolling options on the remaining 27.75 sections. Kaybob is a winter access area for drilling and completion operations. The results of the first four-well program include one dry hole, one standing well and two potential gas wells awaiting winter access for further completion testing. A winter program is currently being prepared for this area with Gopher committed to at least one more earning well. Kaybob prospects currently target the Viking, Bluesky, Gething and Montney formations. Production infrastructure is in close proximity to the subject acreage.

Morinville

Gopher has earned a 25 percent interest in nine sections of acreage through drilling of a Leduc test well. The well discovered gas in the Ellerslie formation and is currently shut-in for pressure buildup to estimate the reserve size. Decision on tie-in will be made in September. A seismic program will be shot immediately to confirm a further Leduc location.

Other

Two further exploratory wells are available in the west central Alberta area targeting three to five million barrel recoverable oil pools each. Details of these prospects will not be made available at this time due to the sensitive competitive nature of these regional play trend prospects. Drilling confirmation and further geotechnical work is required to develop additional locations on the play concept.

Management's Report

The financial statements are the responsibility of management and were prepared in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this annual report has been reviewed to ensure consistency with that in the financial statements.

Internal controls are exercised to provide reasonable assurance that assets are safeguarded and to facilitate the preparation of reliable financial information on a timely basis. Management may make estimates, based on careful judgment, when accounting for transactions which were not finalized at the financial statement date.

These financial statements and the underlying accounting records have been examined by Ramsay, Dalton and Co., an independent firm of Chartered Accountants appointed by the Shareholders.

The Board of Director's has appointed an Audit Committee which consists of three directors. The Audit Committee has reviewed the financial statements with management and the external auditors to determine whether management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements upon the recommendation of the Audit Committee.

Gordon A. Cormack
President

Randal J. Matkaluk
Vice President, Finance

Auditors' Report

To the Shareholders of
Gopher Oil & Gas Company Ltd. (formerly Northern Plains Oil Corporation)

We have audited the balance sheet of Gopher Oil & Gas Company Ltd. (formerly Northern Plains Oil Corporation) as at May 31, 1997 and the statement of loss and deficit and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly in all material respects, the financial position of the Corporation as at May 31, 1997 and the results of its operations and the changes in its cash flow for the year ended May 31, 1997 in accordance with generally accepted accounting principles.

The financial statements as at May 31, 1996 were audited by other Chartered Accountants who issued an unqualified report dated July 19, 1996.

Ramsay, Dalton & Co.
Chartered Accountants

Calgary, Alberta
August 15, 1997

Balance Sheets

		May 31, 1997		May 31, 1996
ASSETS				
Current Assets				
Cash and short-term deposits	**$**	**6,747,197**	$	891
Accounts receivable		**422,642**		25,498
		7,169,839		26,389
Property and Equipment – Note 2		**4,819,729**		1,093,392
	$	**11,989,568**	$	1,119,781
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	**$**	**3,641,803**	$	100,298
Deferred income taxes – Note 5		**281,751**		–
		3,923,554		100,298
Site Restoration Costs		**27,452**		27,452
Shareholders' Equity – Note 4				
Share capital		**8,149,349**		3,470,261
Deficit		**(110,787)**		(2,478,230)
		8,038,562		992,031
	$	**11,989,568**	$	1,119,781

Approved by the Board

Gordon A. Cormack, Director

M. Bruce Chernoff, Director

Statements of Loss and Deficit

		Year ended May 31, 1997		Year ended May 31, 1996
Revenue				
Oil and gas, net of royalties	**$**	**362,457**	$	224,355
Interest and other		**51,702**		12,300
		414,159		236,655
Expenses				
Production		**160,153**		161,286
General and administrative		**206,981**		119,471
Interest		**25,212**		–
Bad debt		**–**		100,346
Depletion and depreciation		**132,600**		159,585
		524,946		540,688
Loss		**(110,787)**		(304,033)
Deficit, beginning of year		**(2,478,230)**		(2,174,197)
Deficit at May 31, 1996 reclassified to share capital – Note 4		**2,478,230**		–
Deficit, end of year	**$**	**(110,787)**	$	(2,478,230)
Loss per share	**$**	**(0.01)**	$	(0.12)

Statements of Cash Flow

		Year ended May 31, 1997		Year ended May 31, 1996
Operations				
Loss	**$**	**(110,787)**	$	(304,033)
Add items not affecting cash:				
Depletion and depreciation		**132,600**		159,585
Site restoration		**–**		9,034
		21,813		(135,414)
Change in non-cash working capital		**3,426,112**		168,806
		3,447,925		33,392
Financing				
Common shares issued for partnership units		**780,000**		–
Flow-through common shares issued		**3,375,400**		–
Tax effect of flow-through common shares		**(1,498,678)**		–
Special Warrants issued		**5,000,000**		–
Special Warrant issue costs		**(499,404)**		–
		7,157,318		–
Investing				
Acquisition of property and equipment		**(5,075,864)**		(49,691)
Tax effect of flow-through common shares		**1,216,927**		–
Proceeds on sale of property and equipment		**–**		16,549
		(3,858,937)		(33,142)
Increase in cash		**6,746,306**		250
Cash, beginning of year		**891**		641
Cash, end of year	**$**	**6,747,197**	$	891

Notes to Financial Statements

May 31, 1997 and 1996

1 SIGNIFICANT ACCOUNTING POLICIES

Gopher Oil & Gas Company Ltd. (Gopher) amended its articles on October 17, 1996 and changed its name from Northern Plains Oil Corporation. It was continued in the Province of Alberta and registered extra-provincially in the Province of Saskatchewan for the business of oil and gas exploration, development and production.

[a] Property and Equipment

Gopher follows the full cost method of accounting for its petroleum and natural gas properties. All costs related to the acquisition of, exploration for and development of petroleum and natural gas interests are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, and costs of drilling and equipping productive and non-productive wells. General and administrative costs are all expensed. Proceeds from disposals are recorded as a reduction of the related expenditures.

Depreciation and depletion of the petroleum and natural gas properties and production equipment are computed using the unit-of-production method based on the estimated proven reserves of oil and gas. For the year ended May 31, 1997, Gopher had commenced an exploration and development program for which an independent evaluation had not been prepared. Depreciation and depletion provisions are based solely on estimates provided by management.

Gopher applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future production, administrative, financing, site restoration and income tax costs plus the lower of cost or estimated market value of unproved properties. At May 31, 1997 this calculation is based on estimates provided by management.

Office furniture and equipment is depreciated on a straight line basis at the rate of 20% per annum.

[b] Joint Interests

Substantially all of Gopher's oil and gas activities are carried out jointly with other parties. The financial statements reflect Gopher's proportionate share of the assets, liabilities, income and expenses of such activities.

[c] Future Site Restoration

Estimated future site restoration and removal costs, net of salvage values, are provided for using the unit-of-production method based on estimated proven reserves. The annual charge is accounted for as an expense and the accumulated provision is reflected as a long-term liability. Actual site restoration costs will be deducted from the accumulated provision in the year incurred. For the year ended May 31, 1997 management considered that no additional provision was required.

[d] Flow-Through Shares

The value of share capital recorded on the issue of flow-through shares is reduced by Gopher's effective tax rate applied to the expenditures renounced. The reduction is credited initially to a deferred tax provision and then as a reduction in the carrying value of oil and gas properties as the funds are expended.

2 PROPERTY AND EQUIPMENT

May 31, 1997

	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties – Note 5	$ 5,185,202	$ 1,332,996	$ 3,852,206
Production equipment	1,192,384	255,025	937,359
Office equipment	40,563	10,399	30,164
	$ 6,418,149	$ 1,598,420	$ 4,819,729

May 31, 1996

	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	$ 2,236,881	$ 1,232,996	$ 1,003,885
Production equipment	319,532	230,025	89,507
Office equipment	2,799	2,799	–
	$ 2,559,212	$ 1,465,820	$ 1,093,392

The capitalized cost for exploration work has been reduced by $1,216,927 at May 31, 1997 to reflect the tax effect of financing the work with flow-through shares – Notes 4 and 5.

3 RELATED PARTY TRANSACTIONS

During December 1996 Gopher acquired all the limited partnership units of two partnerships controlled by Directors of Gopher and their families. These acquisitions were recorded at their cost to the limited partners (Note 4) and are included in petroleum and natural gas properties.

Included in general and administrative expenses are management fees paid to a director in the amount of $20,000 (1996 – $45,000).

4 SHARE CAPITAL

[a] **Authorized**

Gopher is authorized to issue an unlimited number of common shares.

[b] **Issued**

	Common Shares Number	Stated Value
Balance, May 31, 1996	7,889,259	$ 3,470,261
Consolidation 3 for 1 – Note 4[c]	2,629,753	3,470,261
For cash pursuant to private placements of flow-through shares	3,468,000	3,375,400
Tax effect for expenditures renounced	–	(1,498,678)
Issued on acquisition of partnership units – Note 4[e]	7,600,000	780,000
May 31, 1996 deficit reclassified to share capital – Note 4[c]	–	(2,478,230)
	13,697,753	3,648,753
To be issued pursuant to Special Warrants – Note 4[d]	5,000,000	5,000,000
Issue costs for Special Warrants	–	(499,404)
Balance, May 31, 1997	18,697,753	$ 8,149,349

[c] By resolution of the shareholders dated October 17, 1996, Gopher reduced the stated capital account for its common shares by the amount of its deficit at May 31, 1996 and consolidated its share capital 3 for 1.

[d] On February 26, 1997, Gopher issued 5,000,000 Special Warrants at a price of $1.00 per Special Warrant, for aggregate proceeds of $5,000,000 before agent's fee of $400,000.

The Special Warrants entitle the holder to acquire, at no additional cost, one common share and one half of a share purchase warrant. Each share purchase warrant entitles the holder to subscribe for one common share at a price of $1.25 per share until February 26, 1998. Under the Agency Agreement, the Agent acquired a broker's warrant to purchase up to 500,000 common shares at a price of $1.00 per share until February 26, 1998.

On June 25, 1997, 5,000,000 common shares were issued on exercise of the Special Warrants.

[e] 4,500,000 common shares issued in exchange for partnership units are subject to a performance-based escrow agreement.

[f] On December 20, 1996 Gopher established a Stock Option Plan for Directors and employees to purchase 580,000 shares at $0.75 per share until November 22 or December 20, 2001. In March 1997, further options were granted to purchase 635,000 shares at $1.35 per share until March 21, 2002.

[g] Loss per share was calculated on the basis of the weighted average number of common shares outstanding for the year (including Special Warrants) of 8,542,881 (1996 – 2,629,753).

The exercise of the options, share purchase warrants and broker's warrants are anti-dilutive.

5 INCOME TAXES

The deferred income taxes recorded as a current liability represent the tax effect of financing obtained through flow-through shares that has not been expended. Gopher has committed to spend the balance of funds before December 31, 1997. At May 31, 1997, $1,523,901 of exploration expenditures capitalized have no tax basis.

At May 31, 1997, non capital losses of approximately $507,000 are available to be carried forward against taxable income of future years. These losses expire as follows:

1998	$ 82,000
2000	122,000
2002	303,000
	$ 507,000

In addition, at May 31, 1997 Gopher had balances available for deduction at various rates in computing income taxes payable in future years totalling $4,625,000.

The benefits pertaining to these losses and deductions will be recognized in the financial statements at such time as they are realized.

Corporate Information

Directors
Gordon A. Cormack
M. Bruce Chernoff
William DeJong
M. Scott Ratushny

Officers
Gordon A. Cormack, *President*
James A. Campbell, *Vice President, Exploration*
Randal J. Matkaluk, *Vice President, Finance*
Robert F. Gray, *Vice President, Land*

Banker
National Bank of Canada
407 8th Avenue SW
Calgary, Alberta T2P 1E5

Transfer Agent and Registrar
Montreal Trust
600, 530 8th Avenue SW
Calgary, Alberta T2P 3S8

Stock Exchange
Alberta Stock Exchange
Trading Symbol "GOF"

Head Office
Suite 1440, 510 5th Street SW
Calgary, Alberta T2P 3S2
Telephone: (403) 216-1570
Facsimile: (403) 216-1572

Annual Meeting
All shareholders are invited to attend the annual meeting on Thursday, October 16, 1997 at 10:00 a.m. at the Calgary Petroleum Club, Cardium Room, 319 – 5th Avenue SW, Calgary, Alberta. Shareholders who are unable to attend are requested to complete and return a form of proxy.

Gopher Oil & Gas Company Ltd.

Suite 1440, 510 5th Street SW Calgary, Alberta T2P 3S2

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